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‘Prime bank’ scams on the rise, state securities regulators warn; Bogus schemes called ‘Crime of the Century’

OLYMPIA (January 17, 2002) – With low interest rates and volatile equity markets causing Americans to rethink their investment strategies, Washington state’s top securities regulator warned Thursday that losses from “prime bank” scams – over \$1.5 billion last year, by one estimate – are rising dramatically.

Securities Division Director Deborah Bortner says that the recession and volatile stock markets are making investing through the supposedly secretive portfolios of “prime banks” more appealing to investors. Promoters claim that prime bank trading programs can yield huge returns with no risk.

“People want to believe there are secret ways to make fabulous amounts of money,” said Bortner. “But there are no shortcuts in investing. Simply put, prime banks don’t exist.”

In a typical pitch, increasingly made over the Internet, investors are promised access to secret, high-yield investments made through trades among the world’s top or “prime” banks. So many prime bank scams succeed that the Commercial Crime Bureau of the International Chamber of Commerce calls them the “fraud of the century.” Over the past three years, state regulators have brought actions on behalf of more than 41,000 people nationwide who invested at least \$470 million in prime bank scams. During that time, regulators at the Securities and Exchange Commission have shut down roughly three dozen prime bank scams, with losses totaling hundreds of millions of dollars.

Promoters often used investor funds to lead lavish lifestyles. For example, promoters for Tri-West Investment Club, a \$50 million prime bank scam shut down jointly by West Virginia, Washington, British Columbia and federal regulators, used investor funds to buy expensive homes, a helicopter, a yacht and luxury automobiles, including 10 antique cars.

Bortner says that recently, the Securities Division entered a Final Order to Cease and Desist against Dennis Eugene Kluver of Spokane in connection with the Tri-West scheme. “Between July 2000 and April 2001,” Bortner says, “Kluver allegedly solicited at least 41 persons to invest at least \$195,000 in fictitious securities. Over that same time period, we believe he received at least \$65,000 from Tri-West in “interest payments” and “recruiting fees” for his solicitations. The payments were represented as coming from the profits of the prime bank instrument trading,” she explains, “when in fact they consisted of the funds of other investors.”

Bortner warns that con artists use a lot of financial jargon and appear financially sophisticated. “The investors don’t question them because they don’t want to appear

naïve. But there are no dumb questions when it comes to your money. If it sounds too good to be true, it probably is," she adds.

One reason prime bank scam artists are able to mislead people is because the instruments they claim to be using – standby letters of credit, bank debentures and bank-secured trading programs, to name a few – mimic legitimate financial instruments closely enough to deceive people outside the specialized world of international banking.

"The explosive growth of prime bank fraud is tied to the innovations we've seen in finance over the past 20 years," says Bortner. "The con artist invents great-sounding but phony investment products that sound similar to the hundreds of new, legitimate products. Investors too often let visions of above-market returns cloud their judgment," she points out. "When the big returns fail to happen, con artists often promise even higher returns – 1,000 percent annually or more – to persuade their victims to "reinvest.

"In prime bank schemes like these, investors should ask themselves 'Why me?'" said Bortner. "If this scheme really works, why is some stranger in a hotel meeting room or on the telephone or the Internet offering to cut me in on it? Prime bank trading programs don't pass the smell test."

Before making any investment, investors should ask the following questions:

Has the seller given you written information that fully explains the investment? Make sure you get proper written information, such as a prospectus or offering circular, before you buy. The documentation should contain clear and accurate information to allow you or your financial adviser to evaluate and verify the particulars of the investment. Watch for jargon that sounds sophisticated but makes no sense.

Are claims made for the investment realistic? Some things really are too good to be true. Use common sense and get a professional, third-party opinion when presented with investment opportunities that seem to offer unusually high returns in comparison to other investment options. Pie-in-the-sky promises often signal investment fraud. Does the investment meet your personal investment goals? Whether you are investing for long-term growth, investment income or other reasons, an investment should match your own investment goals.

Are the seller and the investment licensed and registered in Washington? To check them out or get information on investing, call the Department of Financial Institutions Securities Division, at 800-372-8303 (toll-free for Washington residents), or visit them on the Internet, at <http://www.dfi.wa.gov/sd>.

Copies of the Orders in this case are also available on the Securities Division website. See orders [SDO-087-01](#) and [SDO-073-01](#).